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STATE FOR WHA/BSC AND EB/IFD/OIA
STATE PASS TO USAID FOR LAC/AA
STATE PASS TO USTR FOR LYANG
NSC FOR SUE CRONIN
TREASURY FOR OSIA MAUREEN WAFER
TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR
COMMERCE FOR ITA SARAH COOK
SOUTHCOM FOR POLAD

E.O. 12958: N/A

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SUBJECT: PARAGUAY POLITICAL AND ECONOMIC UPDATE, JUNE 24 -
JUNE 30 2006

1. (U) SUMMARY:

- Bombing at Tacumbu Prison
- Presentation of Latest Drug Survey
- GOP to Speed up Privatization
- Ambassador Escapes Sexual Assault Case
- UNACE Claims Senate Presidency

Bombing at Tacumbu

1.2. (U) On 6/25, prisoners attempted to escape by placing two explosive devices in a hole in the interior wall at the Tacumbu prison, in central Asuncion. The massive explosions caused significant damage to the outer wall but did not breach it, which would have allowed thousands of inmates to escape. There were no reported injuries or escapes. The investigation is on-going as to how the inmates obtained the materials necessary to create the bombs as well as the types of materials used. On 6/28, workers began the reconstruction of the double walled area that was weakened. The Paraguayan military has taken control of the prison and they are not permitting police or guards to enter the facility. (NOTE: There are approximately 3,054 inmates but Tacumbu has a capacity of between 800 and 900. Prison guards have a reputation for involvement in corrupt activities including prison escape attempts. End Note.)

Presentation of Latest Drug Survey

1.3. (U) On 6/26, Minister Hugo Ibarra, Chief of the Anti-Drug Secretariat (SENAD), presented the latest nationwide study of

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prevalence and risk factors associated with the consumption of drugs in school age children of ages 12 to 17, which was conducted by his office in collaboration with the Organization of the American States (OAS) and the

Metropolitan University of Asuncion. (Note: Eighteen is the legal age to purchase alcohol and cigarettes. End Note.) The survey, conducted in the form of a standardized test at public and private schools, showed that in all cities surveyed alcohol was consumed most frequently by children, followed by cigarettes, then sedatives, and finally marijuana. According to the survey, 13 to 14 years old is the median age for first time use of the substances cited. Female students more commonly used alcohol, inhalants, and sedatives; males used cocaine and cigarettes more commonly than female students. Students with behavioral or academic problems are most prone to the use of drugs and alcohol. As for motivation, 42.9 percent of students surveyed said that they use drugs and alcohol to "forget about their problems," while 30.5 percent ascribed curiosity as the reason for use. When asked where they receive most of their knowledge about drugs, 27.5 percent of the students surveyed cited their teachers, 21.2 percent cited their parents and family members, 15 percent cited their friends, and 12 percent cited television or the internet. The study noted that the number of students who had participated in up to six preventative workshops was three times the number of students who have never participated in a workshop. Prevention was cited as an important strategy to combat consumption in school age children, and it was stated that all preventative workshops should be based on scientific evidence.

GOP to Speed up Privatization

¶4. (U) On 6/27, Ral Vera, Minister of Industry and Commerce, announced that the GOP plans to speed up the process of allowing private sector participation in the state-owned cement company, Industria Nacional del Cemento (INC), and the state-owned water company, Empresa de Servicios Sanitarios del Paraguay (Essap). The plan includes opening the

state-owned enterprises (SOEs) to private sector capital injections and to private sector participation in management.

INC and Essap are priorities due to precarious financial positions and poor performance records. In general, Paraguay,s SOEs are inefficient, overstaffed, and do not provide quality service.

¶5. (U) President Duarte Frutos and the Ministers of Finance, Industry and Commerce, and Public Works and Communications met to discuss improvements in efficiency, quality, and coverage of SOEs. The President requested a commission of technical consultants be formed to assist in the evaluation and implementation of privatization projects. This meeting is linked to Paraguay,s agreement with the IMF which requires developing strategies and action plans for improving management, quality, and coverage of Paraguay,s state-owned enterprises including INC, Essap, the electric company ANDE, the land line telephone company Copaco, and the fuel distributor Petropar. Plans are to be presented in September and acted upon by December 2006.

¶6. (U) The business community supports this initiative and has also emphasized the need to prioritize privatization of capital because without sufficient investment, privatization of management will not produce the necessary improvements. Other business groups complained that Copaco should have been included as an early priority. While the possibility of privatization lends hope for greater efficiency and quality in services, Vice Minister of Finance Jorge von Horoch cautioned that legal difficulties and possible Congressional resistance may hamper the process.

Ambassador Escapes Sexual Assault Case

¶7. (U) Late last week it was reported that Prosecutor Alberto Gonzalez turned down a sexual assault case against the Venezuelan Ambassador to Paraguay, Jose Huerta Castillo, due to his diplomatic status and immunities. Huerta is accused

by Marta Beatriz Mancuello de Pistilli, a Paraguayan employee, of repeated sexual assault. Mancuello presented documentation and testimony including messages from the Huerta on her cellular telephone and a tape recording of him apologizing for assaulting her. The Public Ministry sent the case information to Venezuelan authorities. However, since the victim is Paraguayan it could be difficult to accuse him through the Venezuelan system. On 6/29, in a letter printed by local press, Mancuello requested that the Paraguayan government solicit the government of Venezuela to recall its Ambassador in accordance with the mandates of the Vienna Convention of Diplomatic Relations.

UNACE Claims Senate Presidency

On 6/29, Senator Enrique Gonzalez Quintana, of the National Union of Ethical Citizens Party (UNACE), was elected President of the Senate. Quintana obtained 25 votes from members of the opposition parties Beloved Fatherland Party (PPQ), UNACE, the Liberal Party (PLRA), and the National Encounter Party (PEN). The members of the Colorado Party and the Country in Solidarity Party (PPS) abstained, including former President Carlos Filizzola. (NOTE: PolOff met with Quintana prior to the vote on 6/27 to discuss his plans should he become President. Quintana has pledged his support for the many of the issues that concern the USG including anti-money laundering legislation, anti-corruption initiatives and military exercises. End Note.)
CASON